

Volume 1 Issue 5

July 3, 2003

Inside Outsourcing™



Inside with: Uli Holdenried, Senior Vice President, Managed Services, HP

Special points of interest:

Inside with:

Uli Holdenried

EMEA and off-shoring

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From the Editor.

Welcome to our fifth issue!

Inside Outsourcing's goal is to provide you with articles of interest and with a forum for the exchange of information in this rapidly evolving industry.

Future issues will have "Inside With", a Q&A with different outsourcing leaders.

HP is a leading global provider of products, technologies, solutions and services to consumers and business. The company's offerings span IT infrastructure, personal computing and access devices, global services, and imaging and printing. Their \$4 billion annual R&D investment fuels the invention of products, solutions and new technologies so we can better serve customers and enter new markets. They invent, engineer and deliver technology solutions that drive business value, create social value and improve the lives of our customers.

LJ: What is your view of the competitive landscape in the IT Outsourcing space?

UH: There are huge changes to competitive landscape today. Traditionally, there was the "big 3" (EDS, IBM, CSC), however in last year there have been big changes.

EDS has financial problems and is limited in the scope of deals they can accommodate. This has had major impact on customer and investor confidence, not to mention losing two large deals after already announced down selection.

CSC has also seen a loss in market share and is working to regain focus and credibility.

IBM still remains the leader in this space from a market share perspective, although there is strong evidence that the enterprise is looking for a viable alternative.

HP is coming on strong with our recent mega wins (Proctor and Gamble and Ericsson) and we are challenging the Tier 1 providers.

LJ: What do you see as the hurdles to success in moving to be a tier one provider?

UH: HP is rapidly moving to consideration in many Tier 1 deals. Our market share is growing, but even more importantly, our credibility and leadership in the outsourcing space is gaining momentum.

The biggest hurdle we have had to overcome were simply general awareness. Once companies became aware that HP provided outsourcing, they were very open to seriously considering us. Once in the door, we have been able to show a compelling case for our strong capabilities and value proposition. One of the key elements strengthening that case was the successful execution of the largest merger in IT history. For services, our complementary portfolios, when brought together, clearly catapulted us into a higher realm. (continued on next page)

Inside with: Uli Holdenried, HP (cont.)

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One of the hurdles facing the industry today, and in fact clearly affecting our competition, is simply financial strength. Outsourcing requires a strong balance sheet to fund the acquisition of people and assets up front. One of our advantages is that enterprises have faith in HP's staying power.

Another hurdle that some companies face in outsourcing, is that customers understand this is a long-term contractual arrangement, so they are understandably hesitant to enter into relationships if they are unsure of the cultural compatibility. HP's reputation as a company with integrity, flexibility, and trusted advisor status allows a higher level of comfort for our customers. HP's emphasis is on the relationship, not solely driven by the contract, as is the case with some of our competitors.

LJ: Have the third party advisory firms (TPI, Equaterra, Shaw Pitman, Gartner, etc.) been a part of your recent deals?

UH: Yes. For instance, TPI managed the P&G outsourcing process, and we worked closely with them throughout the bid process. We are developing more knowledge of their process and closer working relationships with them on a continuing basis.

We currently have business in the funnel that is being run by other third party advisory firms. We work closely to understand their specific processes and show them our capabilities so they can advise their customers with full knowledge of HP.



LJ: How does offshore outsourcing emerge as a part of your service offerings?

UH: HP is driven by the business needs of our clients. Reduction of cost is a key business driver, and we have strategies to accommodate that requirement, including a mix of onshore, near-shore, and off-shore solutions.

HP is a global company, and has business operations all over the globe. The specific strategy depends on the needs of the customer. Some want input as to where their operations are managed; others simply want us to find the best solution that meets their needs regardless of geography.

LJ: Will the shared services model or BPO have a role in the HP initiatives?

UH: HP is always examining new opportunities to meet client needs.

Outsourcing: onshore could sideline offshore vendors

Onshore and offshore outsourcers' strategies are converging in competition for FSIs' business.

July 1, 2003 6:31 PM GMT (Datamonitor) - Offshore outsourcing has undergone tremendous growth over the last few years, and this trend looks set to continue. However, onshore outsourcers are in a good position to benefit from client concerns over communication issues, and may finally begin to catch up with the success of their offshore counterparts.

Offshore vendors have aggressively captured market share in a period of extreme cost focus in the financial services industry and are increasingly looking to provide new services to sustain this growth. In doing so, the vendors will have to address the primary concerns of European financial services institutions (FSIs).

Difficulties communicating with the outsourcer are by far the most common concern regarding offshore outsourcing. To address these concerns, the largest offshore outsourcing vendors are establishing onshore presences for some proportion of fulfillment as well as sales and marketing, to develop closer customer relationships and provide a more responsive and accountable service. At the same time, several of the onshore vendors are aiming to achieve a global fulfillment capacity to exploit the intrinsic cost advantages of offshore.

The expansion of offshore outsourcing services in the European Financial Services market will continue growing at a compound annual growth rate of 18% between now and 2005. To date the offshore opportunity has been limited to a few areas such as application development and maintenance and, more recently, contact center outsourcing. Going forward, FSIs' continued focus on cost effectiveness will drive growth in new business process outsourcing (BPO) areas. However, the barriers to offshore outsourcing are likely to affect these new operational services more severely than the traditional offshore services.

Despite the past success of offshore outsourcers, some of the vendors that are best positioned to capitalize on the developing offshore BPO market are in fact some of the top tier onshore vendors. Global networks and fulfillment capabilities and the ability to exercise a smart or flexible sourcing strategy to match customer needs, mean that communications concerns will be much reduced through these vendors, even where they will provide the service from an offshore location.





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Growth In Business-Process Outsourcing Will Come On Human-Resources Front

By Paul McDougall, InformationWeek
June 24, 2003

Human-resources management is the most commonly outsourced business process and the market for HR outsourcing will enjoy robust growth over the next year, according to a new study from Gartner.

The IT market research firm says sales of HR outsourcing services will likely reach \$46 billion this year, an 18% jump over last year's sales of \$39 billion. Sales will hit \$51 billion in 2004, Gartner forecasts. Also by 2004, HR business-process outsourcing will represent 39% of all revenue from BPO sales, Gartner says.

Gartner analyst James Holinчек says businesses' desire to cut costs is helping to drive growth in the HR business-processing outsourcing market. He also notes that it's a mature services offering, meaning that many companies are already comfortable with the practice. "Enterprises perceive HR BPO options as less risky and good value for the money," Holinчек says.

New pricing plans by service providers are also driving sales, says Holinчек, noting that more and more vendors are adopting so-called utility pricing plans under which customers' payments vary depending on the level of service they require at a given time. IBM and Hewlett-Packard are among the service providers that have been aggressively pushing utility pricing in recent months.



" Failure is only the opportunity to begin again more intelligently."

Henry Ford